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Price Fluctuations in the Woolen Industry

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THE two questions which are probably of most interest in connection with wool prices at present are (1) whether present high prices are justifiable and (2) whether a reduction in them is likely. The first question cannot be answered positively without statistics of cost which we do not possess. The factors which have caused present prices, however, can be traced in a general way and the reader may judge for himself whether or not, in view of these facts, present prices appear justifiable. In the same way, only a tentative answer can be given to the second question noted above, namely, the likelihood of a reduction in prices. Involved in this question is the broader one of the future movement of prices in general and the relationship of wool prices to the general price level.

WOOL PRICES

The course of prices in the wool industry in the last ten years has followed the course of prices in general except that the fluctuations, particularly during the war, have been considerably more extreme. This ten year period may be divided according to the trend of prices as follows:

1. Summer of 1911 through spring of 1914—rising and falling prices.
2. Summer of 1914 through the

summer of 1916—continuous rise in prices.

3. Fall of 1916 until the armistice—very steep rise in prices.

4. November, 1918, through March, 1919—recession in prices.

5. Spring of 1919 until spring of 1920—rise in prices.

In order to account for the present level of prices it would be necessary to trace fluctuations from the spring of 1914 to the present time. Because of its bearing on the tariff question, which is again being discussed with regard to wool, the two periods (one of rising prices and the other of falling prices) prior to the war will be briefly discussed also.

Summer of 1911 through Autumn of 1914

The wool schedule of the Payne-Aldrich law, which was effective until December, 1913, provided considerable protection to the woolen industry. The fear that less favorable legislation might be enacted was given as the cause for the low prices in 1911. Again in 1913 uncertainty as to the provisions of the Underwood bill was given as the cause for declining prices. As a matter of fact, no change was made in the schedule until 1913 when, according to the Underwood law, raw wool was allowed importation free of duty and manufacturers of wool were taxed at a rate considerably below that provided by the Payne-Aldrich law. Uncertainty regarding the tariff

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PRICES OF WOOL VERSUS ALL COMMODITIES, 1913-18

(Prices July, 1913-June, 1914=100)

Quarter	1913		1914		1915		1916		1917		1918	
	All Com-mod.	Wool	All Com-mod.	Wool	All Com-mod.	Wool	All Com-mod.	Wool	All Com-mod.	Wool	All Com-mod.	Wool
1st.	102	108	100	98	100	108	118	129	152	173	187	257
2nd.	100	106	97	98	100	111	123	135	177	194	190	272
3rd.	101	104	100	100	102	114	125	141	187	222	197	283
4th.	102	101	98	102	107	118	139	152	182	242	202	286

was undoubtedly one factor in the price situation of this period. However, in view of the fact that wool prices moved in such harmony with general prices, it seems very probable that the interaction of different parts of the price system was at least as important a factor in the situation as the tariff. The period from December, 1913, until the war began is too short to make possible any conclusions as to the effect of the removal of protection on prices. The period was one of declining prices not only in the woolen industry but also in general.

*Summer of 1914 through Summer
of 1916*

As to the course of wool prices during the war, we have somewhat more systematic information than for the periods before or since the war. According to an index number constructed from the prices of sixty-five commodities including raw wool, yarns and cloth, the fluctuations in wool prices bore the following relationship to the fluctuations of prices in general:¹

The period dating from the outbreak of war until the summer of 1916 was one of steadily increasing activity in

the woolen industry. Several factors were influential in this connection: (1) orders of foreign governments for uniform cloth, (2) increasing domestic civilian demand as a result of increasing prosperity, (3) removal of foreign competition, and (4) importation of raw wool duty free. Foreign orders were not of large dimensions, as they were for ammunition and chemicals, but were sufficient to stimulate business and cause prices to rise. Estimated raw wool consumption in manufacture in 1915 was 56 per cent greater than in 1913, the entire surplus of raw material having been imported.

Meanwhile, prices in general did not begin to feel the influence of revival until the early fall of 1915. The year immediately following the outbreak of war was one of business uncertainty and prices in general remained almost on a level throughout the period. By the end of 1915, however, the effect of foreign demand for certain groups of commodities had stimulated general business, and prices as a whole began to rise.

The woolen industry was among the first to feel the effects of the general business revival in 1916. Prices of metals and chemicals had risen more rapidly due to the special foreign

¹ Index for all commodities is that prepared by Price Section of the War Industries Board.

demand for these commodities; but the increased prosperity resulting from this foreign business was very soon felt in the clothing industries. As a result, prices of clothing commodities were advanced considerably more rapidly than those of commodities in general. Whereas estimated wool consumption had increased 56 per cent above 1913 consumption in 1915, it increased 64 per cent in 1916 over 1913 and by the end of the year the industry was working practically up to capacity. Meanwhile the heavy demand for finished woollens caused very great competition for wools in the raw materials markets at home and abroad. Especially in the South American and South African markets, American buyers competed with foreign governments as well as with other American buyers for wools. At the same time the demand for labor from other industries and the increased cost of living necessitated wage increases. Fortunately there were no tariff duties further to enhance costs.

Autumn of 1916 until the Armistice

During the two years from September, 1916, to October, 1918, the price index number for the woolen industry doubled. During the same period all commodities advanced in price approximately 40 per cent. The main reasons for the increase in prices in the woolen industry during this period were: (1) demand of the United States government for very large quantities of woolen materials; (2) speculation on the part of wool dealers in 1917; and (3) continued civilian demand. A shortage of supplies was not felt until the spring of 1918 and did not influence prices even at that time

because the government then bought the country's entire supply of wool at prices of the preceding July. The movement of prices during this period differed as regards the raw material and the finished products. Raw wool prices made their spectacular rise between the fall of 1916 and the summer of 1917 and then settled at the high level. Wool products, on the other hand, rose more slowly but advanced consistently until the signing of the armistice. The cause of the rise in raw wool prices is to be found in the fact that the government suddenly placed orders for enormous quantities of materials; during 1917, for 25,000,000 yards of suiting, 23,000,000 yards of overcoating, 37,000,000 yards of shirting flannel, 60,000,000 pairs of socks, as well as proportionately large quantities of underclothing and blankets. Manufacturers taking government contracts bid against one another for raw materials and forced the price higher. At the same time dealers, in their efforts to control supplies, began to buy far into the future. The result would have been higher prices than prevailed if stocks had not been abnormally large. It is thus apparent that practically the entire rise in raw wool prices (amounting to 270 per cent of prices in the pre-war year) occurred before the government had begun its policy of price control. Raw wool prices stopped this spectacular advance in July, 1917, due to agreements among dealers. The government was not authorized to control prices until August of that year.

Government Control of Wool Prices

Government control of wool did not occur in earnest until the spring of

1918 although license control of both imports and exports had been instituted somewhat earlier. "Control" consisted of outright government purchase of the 1918 domestic wool clip, the requisitioning of imports which were suitable for military clothing, and the purchase of stocks held by dealers. In other words, for the remainder of that year the government owned the entire wool supply save that in the possession of manufacturers at the time control began. Control was instituted at that time because of the shortage of stocks prior to the bringing of the domestic clip to market. In making these purchases the government paid the price of the preceding July, which was only very slightly below the current market price and an exceedingly high price both as compared with pre-war prices and prices abroad.

Purpose of Government Control of Wool Prices.—It should be noted that control was not undertaken for the purpose of regulating prices of woollen clothing to civilians but in order to keep prices to the government for military supplies as reasonable as possible, and above all to insure to the government a sufficient quantity for military purposes. In so far as the latter point is concerned, control was undoubtedly successful. As regards the former point, there is little doubt that the War Department could have arbitrarily taken possession of the wool at a lower price than was actually paid. This policy, however, would have aroused the antagonism of a large section of the community, not only of wool dealers and growers but also of business men in general. As was pointed out above, unless some such

confiscatory policy had been pursued, prices could not have been less, as the greatest price advance had occurred before government control was authorized.

Monopoly buying in necessary commodities like food and clothing on the part of the government caused great hardships for the civilian public, as scarcity and high prices show. In the case of wool, although export and civilian demand had caused prices to rise originally, it was the United States government demand which was responsible for the greatest increases. Add to this the fact that, from April, 1918, until the armistice, there were no free supplies of wool for civilian use and the cause for high prices is apparent.

Price fixing in the case of yarns and cloth would probably have relieved the situation comparatively little as advances in these lines appear to have been (with the exception of yarns for a few months in 1918) merely proportionate to those in the raw materials. The speculation which occurred in the leading civilian cloth markets in the summer of 1918 was a natural outcome of the shortage of supplies.

November, 1918, to March, 1919

With the signing of the armistice the government was forced to decide whether to continue control or to relinquish it at once. Although the latter policy was followed in general, in the case of wool every effort was made to protect the industry so far as possible during the transition period. The government "cut" its prices radically in order to encourage the mills to buy; it promised the wool

growers that it would not sell wool during the summer when the domestic clip would be coming to market and, in spite of its huge holdings, allowed dealers to import raw wool freely from abroad.

In spite of these concessions, the industry was about 40 per cent idle through March, and normal conditions were not obtained until the summer months. During this period prices declined in all sections of the industry. The following table shows the course of prices of two leading grades of raw wool (one coarse and one fine) and of one grade of yarn, from October, 1918, to December, 1919, compared with the wholesale price index of the Bureau of Labor Statistics:

From a study of the table, it becomes apparent that the slight downward movement of prices in the woolen industry in the months follow-

ing the armistice was similar to the movement of prices in general. The period was one of business uncertainty marked more by industrial inactivity than by radical price cutting. This seems quite in accordance with good business judgment. There existed at that time very great buying capacity in the hands of the public. At the same time, stocks of civilian fabrics and clothing were low. There was every reason to believe that once the nervousness of business men could be dissipated, buying would commence on a large scale.

In the woolen industry the period was marked by very serious labor troubles. As prices were a factor in the situation, it seems pertinent to explain the connection. The unorganized workers in Lawrence, early in February, struck for a 48-hour week with 54 hours' pay. The strike came

WOOL PRICES AND THE GENERAL PRICE LEVEL

	Raw Wool		Worsted Yarn	Index Number
	Ohio fine unwashed delaine	Ohio 1/4 blood unwashed	1/40's 1/2 blood	Bureau of Labor Statistics
	Dollars per pound			1913 prices = 100
Oct., 1918.....	.74 ¹	.75 ¹	3.02 ^{1 1/2}	205
Nov.....	.74 ¹	.75 ¹	3.02 ^{1 1/2}	206
Dec.....	.68	.79 ¹	3.02 ^{1 1/2}	207
Jan., 1919 ²66	.78	2.60	203
Feb.....	.69	.63	2.60	197
March.....	.69	.58	2.70	201
April.....	.70	.54	2.85	203
May.....	.70	.54	3.05	207
June.....	.73	.58	3.25	207
July.....	.78	.70	3.60	219
Aug.,.....	.83	.68	3.75	226
Sept.....	.83	.68	3.90	221
Oct.....	.83	.64	3.90	223
Nov.....	.85	.65	4.10	230
Dec.....	.88	.67	4.10	238

¹ Interpolated—no prices quoted.

² 1919 raw wool prices collected by Mr. Richard May.

apparently almost accidentally, following a demand on the part of the organized workers for a 48-hour week with 48 hours' pay, in which the unorganized workers were not willing to join. The strike lasted until May when the demands of the workers were granted. The main reason given by the manufacturers for refusing to grant the demands of the workers early in the strike was that the business situation—in other words, prices—was not such as to warrant wage increases. As business revived and prospects were favorable for continued advances in prices (and, incidentally, the work of more hands was needed), the demands of the workers were granted.

Spring of 1919 until Spring of 1920

The last year has been marked by advancing prices in all kinds of wool excepting coarse grades of raw wool. For these the demand has been light and as a result the government still holds millions of pounds bought during the war. The reason for the advance in prices is very much the same as for the advance in prices in general. During the war the purchasing power of large sections of the community has increased. This has led to a more

than proportionate demand for such a commodity as wool which combines the qualities of necessity and luxury. The reason that wool is abnormally high at present as compared with the general price level is in part due to this fact and in part due to the price increases of 1916 and 1917 which placed wool prices on a level much higher than the average.

PROSPECTS FOR A REDUCTION IN
PRICES

Considering the supply side statistically, we see no reason to expect a radical reduction in wool prices. At the same time, due to the fact that 1919 domestic production was slightly more than that of 1918 and imports only slightly less, there is no doubt a large stock of the raw material in the country. What the effect of this will be on prices depends largely upon how it grades as to quality. Present demand is largely for the finer grades of the material. On the demand side, so long as there is no considerable shift in business activity, there seems good reason to believe active buying will continue. However, as general prices recede, wool prices will decline also, but will probably remain on a higher level than average prices for some time to come.